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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

GTE Service Corporation
1850 M Street, N.W., Suite 1200
Washington, D.C. 20036
(202) 463-5200

May 13, 1994

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

DOCKET FILE COPY ORIGINAL

RE: *EX PARTE* MEETING IN CC DOCKET No. 93-251, MM DOCKET No. 93-215
AND CS DOCKET No. 94-28

Dear Mr. Caton:

Pursuant to Section 1.1206 of the Commission's Rules, GTE is filing with the Secretary's office two copies of materials discussed in an *ex parte* presentation relating to the above proceedings on May 13, 1994.

GTE representatives met with Kenneth Ackerman, William Kehoe and Edward Dashkin to discuss proposed affiliate transaction rules. The presentation reiterated points already made by GTE on the record in the above proceedings.

Please call me at 463-5293 if you have any questions.

Sincerely,

Edwin J. Shimizu
Director - Regulatory Matters

Attachment

c: Kenneth Ackerman
William Kehoe
Edward Dashkin

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241

GTE Telephone Operations

**Presentation to
Federal Communications Commission**

May 13, 1994

Re: CC Docket 93-251 Proposed Affiliate Transaction Rules

GTE Representatives:

**Linda Libra, Director-Regulatory and Cost Accounting - Irving, TX
Steve Banta, Director-Business Matters - Irving, TX
Bennett Cepak, Staff Manager-Business Matters - Irving, TX
Ed Shimizu, Director-Regulatory Matters - Washington, DC**

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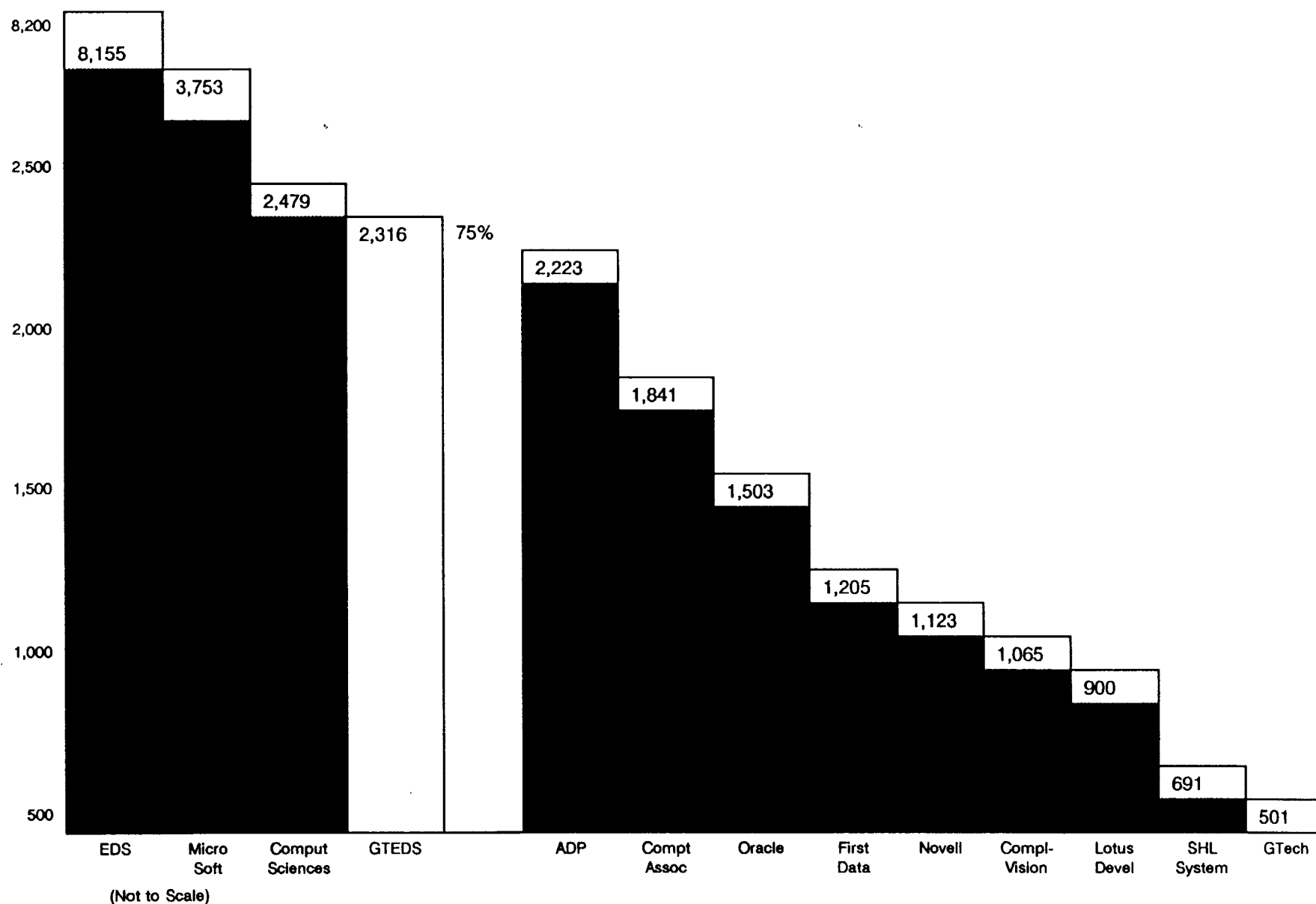
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Items for Discussion

- **Implications of the 75% bright line test on GTE Data Services**
- **Alternatives to the 75% bright line test**
- **Implications of expanding the fair market test to goods and services**
- **Application of the expanded fair market test**
- **Economic cost of the proposed enforcement measures**
- **Circumstances support current rules**

(\$s in Millions)

Implications of 75% Bright Line Test (Total Sales)



Alternatives to the 75% Bright Line Test

- **Carriers pricing below their cap should be exempt from rules**
- **Independent validation of market prices**
- **Multi-step approach (% of Sales, Absolute Sales, Number of Customers)**
- **Phase-in to meet a reasonable bright line test**
- **Hybrid**

Implications of Expanding the Fair Market Test to Goods and Services

- **General**
 - **Compliance cost will add no value**
 - **Nonproductive reallocation of scarce resources**
 - **Will not improve LEC cost position**
- **Regulated services provided to nonregulated operations, the higher of cost or market (HCM)**
 - **Ratepayers bear opportunity cost**
 - **Artificially inflates prices**
- **Nonregulated services provided to regulated operations, the lower of cost or market (LCM)**
 - **Inherent subjectivity of market price studies**

Application of the Expanded Fair Market Test

- Materiality threshold
- Services with no legitimate market

Economic Cost of Proposed Enforcement Measures

- **Loss of LEC competitiveness within the expanding telecommunications industry**
- **Loss of U.S. competitiveness in global economy**

Circumstances Support Current Rules

- **Prevailing market price affiliate transactions are immaterial**
- **Prevailing market prices have continued to decrease**
- **Stringent enforcement measures already in place**
- **Price caps reward cost reductions - regardless of source**
- **Undermines benefits of market based regulation**